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Although Pending Sales Up, NAR Warns of Tax Law Implications

Pending home sales finished off the year in a more upbeat tune. Although the December gain in sales, reported on Wednesday by the National Association of Realtors® (NAR) was a slim one, it made three consecutive monthly gains for the leading indicator. NAR warned however that it **expects existing home sales and price growth to moderate**, primarily because of the expected impact of the new tax laws in high cost housing markets.

NAR's Pending Home Sales Index (PHSI) rose 0.5 percent to 110.1 in December, from an upwardly revised (from 109.5) 109.6 in November. The index is now 0.5 percent higher than in December 2016. It was the highest level for the PHSI since it hit 111.3 last March.

Analysts nailed the number with their forecasts. Those polled by Econoday predicted increases in the range of a negative 0.3 percent loss to a gain of 1.0 percent with a consensus of an 0.5 percent increase.

Lawrence Yun, NAR chief economist, says "Another month of modest increases in contract activity is evidence that the housing market **has a small trace of momentum** at the start of 2018. Jobs are plentiful, wages are finally climbing and the prospect of higher mortgage rates are perhaps encouraging more aspiring buyers to begin their search now."

Added Yun, "Sadly, these positive indicators **may not lead to a stronger sales pace**. Buyers throughout the country continue to be hamstrung by record low supply levels that are pushing up prices - especially at the lower end of the market."

NAR says home prices increased over 2017 by 5.8 percent, the sixth year in which the increase exceeded 5.0 percent, blaming an uninterrupted supply and demand imbalances throughout the country for the rapid growth. While tight inventories are still expected to put upward pressure on prices in most areas this year, Yun says price growth will probably shrink, and some states could even experience a decline, because of the negative effect the changes to the mortgage interest deduction and state and local deductions under the new tax law.

"In the short term, the larger paychecks most households will see from the tax cuts may give prospective buyers the ability to save for a larger down payment this year, and the healthy labor economy and job market will continue to boost demand," said Yun. "However, there's no doubt the nation's

National Average Mortgage Rates



	Rate	Change	Points
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Mortgage News Daily

30 Yr. Fixed	6.87%	-0.02	0.00
15 Yr. Fixed	6.32%	-0.01	0.00
30 Yr. FHA	6.33%	0.00	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.59%	+0.01	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/23

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

most expensive markets with high property taxes are going to be **adversely impacted by the tax law.**"

	Value	Change
Builder Confidence	Mar 51	+6.25%

Added Yun, "Just how severe is still uncertain, but with homeownership now less incentivized in the tax code, sellers in the upper end of the market may have to adjust their price expectations if they want to trade down or move to less expensive areas. This could in turn lead to both a decrease in sales and home values."

Yun does anticipate a slight increase (0.5 percent) in **existing sales** this year (5.54 million), on top of the 1.1 percent increase last year. Single-family housing starts are forecast to jump 13.3 percent to 961,000, which will push new home sales up 15.3 percent to 701,000 (608,000 in 2016).

Pending sales were mixed on a regional basis, with the worst performance in the Northeast where the PHSI fell 5.1 percent to 93.9 in December, and is now 2.7 percent below a year ago. Contract signings in the Midwest were also down, but by a more modest 0.3 percent, dipping to 105.0, but remaining 0.3 percent higher than December 2016.

The other two regions saw contract signings increase; by 2.6 percent in the **South** to 126.9, and 1.5 percent in the **West** to 101.7. The **Midwest** finished the year 4.0 percent above the previous December.

The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity parallels the level of closed existing-home sales in the following two months.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined. By coincidence, the volume of existing-home sales in 2001 fell within the range of 5.0 to 5.5 million, which is considered normal for the current U.S. population.

Mortgage Market Newsletter

This is one of the most insightful resources when following the mortgage market news. If you have any questions, please feel free to contact me directly,

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This email is for educational purposes only and to establish relationships with like-minded individuals like yourself!

I hope to chat with you soon,

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